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# Impact of Internal Marketing on Operational Performance: An Empirical Study in Low Cost Carrier Industry

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**Abstract**

This study is conducted in an airline industry setting. The purpose of this paper is to examine the link between internal marketing and operational performance. Two hundred nine set of questionnaires that are usable for the analysis. The results show that training and development, senior leadership and empowerment were significantly associated with operational performance. Thus, there was no evidence where strategic reward and internal communication work well on operational performance. The paper's results indicate that low cost carrier managers should pay attention to upgrade employees' knowledge in regular basis as it is a market requirement, especially in the use of labour-saving technology to maintain competitiveness.



*Keywords:* budget airline, service management, operations, manager, Indonesia

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## 1. Introduction

The airline business is booming, as a matter of fact, and more air carriers have been innovated. The emerging new business model in the airline transportation industry is commonly known as the low-cost carrier that enables people to travel with affordable ticket prices. Airline service process is complex compared to other service industries. An airline will find it hard to compete with its competitors in the market if it makes high investment and other higher operational costs (e.g. web-integrated system, mobile phone application for check-in, maintenance, repair and overhaul (MRO), multi-sorting baggage handling system). To remain competitive, some of the low-cost airlines have even outsourced their airline processes to other parties. The outsourcing strategy is implemented in order to reduce the cost and this tends to affect the airline service operations. According to Fernando et al. (2011), the management spends a lot of time focusing on the airline infrastructure, soaring fuel costs, investments, competitor thus overlooking the role of internal suppliers towards the success of an organization. Indeed, a string of deadly accidents have raised fresh concerns about service and safety, from board and ground crew, pilot shortages and the quality of budget airlines. Aircrafts of accidents in Asian have been increasing and have injured and killed people (e.g., Indonesia and Thailand). Studies on airline frontier models are generally limited and outdated and clearly indicate the need for additional evidences and implications on the efficiency characteristics of the airline industry (Assaf & Josiassen, 2011). The objective of this paper is to determine the relationship between the internal marketing and operational performance in low cost carrier industry.

## 2. Literature and hypothesis development

The IM agenda is to provide the market to the internal supplier. IM contributes to the HR's effectiveness. IM has to be treated as a separate construction and not merely as the representation of a number of human resources management functions (Ewing & Caruana, 1999). IM attracts, develops, motivates, and retains qualified employees through job products that satisfy their needs. IM is also the philosophy of treating employees as customers and it is the strategy of shaping job-products to fit human needs (Berry & Parasuraman, 1991, p.151). The five basic operational performance objectives are considered to apply in all types of the operation. These objectives are: a) quality; b) speed; c) dependability; d) flexibility and e) cost (Hill, 2000). Operational performance has various definitions to fit into the research objectives. Generally, the definition of operation performance will contain those objectives. Thus, to achieve those objectives, certain operation management tools and techniques should be applied. The focus of operation performance is doing things better, faster, more efficiently, and cheaper (Staughton & Johnston, 2005).

### *2.1. Hypothesis Development*

There is also a positive association between senior management initiatives and operational performance. If strategies and practices are formally in place, the organisation is much more likely to have attained a high level of performance. These strategies and practices can influence performance with respect to certain operational activities, and the success of these activities can provide a measure of how successful senior management strategies and support have been (Prabhu & Robson, 2000).

*H.1: There is a positive and significant relationship between senior leadership and operational performance*

The previous studies have found that the employees' rewards system has been able to determine an organization's productivity. A company has implemented strategic rewards through a gain-sharing

program which is generally successful to increase the productivity of the company sharply in the initial two until three years according to plan. In addition to this finding, in most cases employment patterns remain stable even if the industrial trends are not (Schuster, 1983; 1984).

*H.2: There is a positive and significant relationship between strategic rewards and operational performance*

An effective internal communication will enhance operational performance in a service organization. The employees would know which part of the organization that they should deal with in order to produce efficiency. Therefore, the high quality service will be provided with low price to compete in the hyper competitive market. As in the manufacturing domain, Parkan (2005) has argued that the operational performance in a service organization still can be measured by using the input and output methods.

*H.3: There is a positive and significant relationship between internal communication and operation performance*

The training and development have a role to add the value of an organization by maximizing productivity, enriching the employees' skills, and helping them to confront the external pressures more effectively (Peteraf, 1993).

*H.4: There is a positive and significant relationship between training and development and operational performance*

The content and form of the core competences are created through the connections between the organization's objectives, strategy, structure and culture, as well as its management concepts, the expertise of its employees and the degree to which the employees are appreciated by the management (Bergenhenegouwen et al., 1996).

*H.5.: There is a positive and significant relationship between empowerment and operation performance*

## 3. Methodology

IM consist of five dimensions and adopted from Ahmed et al. (2003). Additionally, the content and wording of the operational performance construct were directly traceable to the previous studies and the benchmarking results of LCC airlines in particular regions such as Europe, America, and Asia. Each item was measured using a seven-point Likert scale. Several experts (professors & lecturers) and LCC senior managers would assist in reviewing the draft of the questionnaire. At the time, the draft was completed and effort was made to conduct the pre-testing of the questionnaire. This study uses the level of operational performance in the past three years. Control variables were included such as the medium and short-haul of flight type and Indonesian ownership. Measurements scales for internal marketing was anchored from (1) strongly disagree to (7) strongly agree. The operational performance was anchored from (1) down more than 10 percent to (7) up more than ten percent. The five airlines operate through 8250 networks of business units that are well spread across seventeen thousand islands and consist of 33 provinces in Indonesia. The unit analysis is a strategic business unit (SBU). The majority of SBUs were concentrated in big cities in Indonesia. Based on the data from the Indonesian Directorate General of Civil Aviation (DGCA) in 2008, there were about 730 SBUs within the low-cost airline in top big five cities in Indonesia. The study has conducted surveys in top five cities in Indonesia. The cities which would participate in this study were Jakarta (central region), Surabaya (North Java region), Denpasar (Bali region), Makassar (Sulawesi region), and Medan (Sumatra region). The SPSS (Statistical Package for Social Science) software version 16.0 for Windows is utilized to assist in the analysis of the data. The questionnaires were prepared for 500 respondents covering all the networks of SBUs in five major cities in Indonesia. The 215 questionnaires were returned for a response rate of 23.52 percent. However, there were only 209 sets of questionnaire that are usable for the analysis.

## 4. Results and Findings

Most of the managers of LCC business units have less than five years of experience (64.1%) with the airline industry, whereas 6-10 years (25.8%), 11-15 years (5.3%), and more than 15 years experiences (4.8%). Management prefers to employ managers of LCC business unit within the age range of 25 to 30 years old (34.4%), whereas 25.45 percent employ 31 to 35 years old head of LCC business unit, 36 to 40 years old head of LCC business unit (24.4%) and only 15.8 percent of manager of LCC business units are employed in age less than 25 years old. The proportional numbers of years of the airline being in business, less than five years (40.7%) and between 6 to 10 years were 59.3 percent. In addition, the education levels of managers of LCC business unit differ with 74.2 percent having bachelor degree, 14.8 percent high school graduates, and 11 percent master holders. Most of the LCCs (69.9%) have handled 8 to 11 million passengers per annum, followed by 4 to 7 million passengers per annum (35.4%). In contrast, 7.2 percent have handled less than 3 million passengers per annum and the rest (2.4%) handled 12 to 14 million passengers per annum. The results show that most of the respondents in this survey were operating short-haul (70.3%), both types (21.1%), and medium-haul (8.6%) respectively. The results for factor analysis of this measurement IM yielded five factors solution with eigenvalues greater than 1.0 and the total variance explained is 78.1 percent and the total variance explained is 77.86 percent of operational performance. The reliability analysis showed satisfactory result of Cronbach's alpha (>0.70).

Table 1. The Relationship between Internal Marketing and Operational Performance

| | Model 1 (β) | Model 2 (β) |
|---|---|---|
| Control Variable (s): | | |
| Medium and Short-haul [a] | .162* | -.033 |
| Indonesian Owned[b] | -.086 | -.019 |
| Predictor (s): | | |
| Strategic Reward | | .006 |
| Internal Communication | | .026 |
| Training & Development | | .302*** |
| Senior Leadership | | .158* |
| Empowerment | | .334*** |
| $R^2$ | .046 | .335 |
| Adjusted $R^2$ | .037 | .311 |
| F | 4.946** | 14.379*** |

*Note: *p<0.05, **p<0.01, ***p<0.001. Dummy coded: [a] medium and short-haul = 1, medium-haul= 0, short-haul = 0; [b] Indonesian owned = 1, Non-Indonesian owned = 0, Joint owned = 0; Model 1 refers to regression with control variables. Model 2 refers to regression with control variables and predictors.*

In the first model, the F value of 4.946, which is significant at 0.01, denotes that there is a contribution of control variable into the model (Table 1). The second model displays the findings after the inclusion of predictor variables. The internal marketing was treated as predictor. After statistically controlling the medium and short-haul of flight type and Indonesian ownership, the model improved significantly. The $R^2$ is 0.335 and followed by the adjusted $R^2$ = 0.311. The $R^2$ value of 0.335 indicates that control variables and internal marketing can together explain 33.5 percent of the variation in operational performance. This model provides evidence of direct positive and significant relationship between internal marketing and operational performance. The coefficients indicate that the above significant

relationship is contributed by three variables, the training & development ($\beta$=0.302, $p<0.001$), senior leadership ($\beta$=0.158, $p<0.05$) and empowerment ($\beta$=0.334, $p<0.001$). The positive sign of beta values shows that there is a significant positive relationship between the training and development, senior leadership and empowerment with operational performance. As such, H.2.1.b, H.2.4.b, and H.2.5.b are accepted. Strategic reward and internal communication form a non-significant relationship with operational performance. This is because the p-value is greater than 0.05. Hence, H.2.2.b and H.2.3.a are rejected.

## 5. Discussion

Reward and wage systems determine to a certain level of the work improvement of internal customer (Allen & Kilmann, 2001). In contrast, the multiple regressions results have found that there is inconsequential relationship between strategic rewards and operational performance. The finding is contradicting Schuster's work (1983; 1984). He argues that the reward system associates with organization productivity. The insignificant beta in the model indicates some conclusions. It indicates that the LCC top management does not well employ the strategic rewards as a motivator to encourage the managerial level, and work maximally to get certain amount of passenger carried and maximize the load factor. The result of the research indicates that there is an insignificant relationship between internal communication and operational performance. This is because the open communication climate in LCC organization is not adapted as organization culture yet. Open communication has allowed the two-way communication between the management and employees.

In addition, it shows lack of the role of management to perform two-ways communication practice with employees. Company has invested time and financial resources to enhance employees' skills and ability. The idea is to improve their day to day operational performance. This is especially for those who work with high-end technology equipment and service encounter. The result indicates that there is a positive relationship between training and development and operational performance. This finding confirms the result of previous research by Samson and Terziovski (1999).

The result of the multiple regressions analysis reveals that there is a positive impact of senior leadership on operational performance. Senior leadership has an important role to bring about the organization's effectiveness. Alan Joyce Jetstar's CEO has brought the concept of best support to our people, our growth and our sustainability to continue the highest standards in all of its operations. Under his leadership, the Jetstar has entrenched the effectiveness of organization operations (Jetstar, 2006). Practically, empowerment is useful to improve service productivity. Employees are expected to be creative when they deal with problems at work. It is like a valuable trust given to them the by a company. The benefits of empowerment also can give more flexibility during service encounter. They serve customer with their own personality. Thus, if delivering a service has failed, the front line employee can take an action to fix it. The objectives may be to improve service quality or service worker productivity, or to improve job satisfaction and reduce the labour turnover (Lashley, 1996).

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